

Message Text

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PAGE 01 CANBER 06048 110202Z

14

ACTION EA-09

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SS-15 STR-04 CEA-01 PA-02 PRS-01 AGR-10 /125 W

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 6534

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

UNCLAS CANBERRA 6048

SYDNEY ALSO PASS TRADE CENTER

E.O. 11652: N/A

TAGS: EGEN, AS

SUBJ: AUSTRALIAN ECONOMIC DEVELOPMENTS

REF: CANBERRA 5630

1. LATEST OFFICIAL DATA SHOW AUSTRALIAN UNEMPLOYMENT, SEASONALLY ADJUSTED BASIS, TOPPED FIVE PCT. IN AUGUST. MEANWHILE, RESERVE BANK OF AUSTRALIA ON SEPTEMBER 6 INCREASED BANK'S STATUTORY RESERVE DEPOSIT ("SRD") RATIO BY ONE PCT. TO NEW LEVEL OF 5.6 PCT.

2. THE UNADJUSTED UNEMPLOYMENT FIGURE FELL IN AUGUST FROM 252,000 TO 248,000, IMPORTANTLY BECAUSE OF A REDUCTION
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PAGE 02 CANBER 06048 110202Z

IN THE NUMBER OF PERSONS REGISTERED AS A RESULT OF STRIKES.

THE NEW UNADJUSTED FIGURE REPRESENTED APPROXIMATELY 4.2 PCT. OF THE WORKFORCE. THIS NEWS WAS FOLLOWED BY AN OFFICIAL GOA ESTIMATE THAT UNEMPLOYMENT WOULD INCREASE FURTHER IN COMING MONTHS AND PEAK AT APPROXIMATELY 400,000 ACTUAL IN JANUARY 1976, EQUIVALENT TO 6.6 PCT. OF THE LABOR FORCE. ON A SEASONALLY ADJUSTED BASIS, THIS WOULD REPRESENT ONLY A MARGINAL FURTHER INCREASE OVER AUGUST LEVEL. THE ABSOLUTE INCREASE WOULD REPRESENT PRIMARILY THE INFLUX OF STUDENTS GRADUATING FROM SCHOOL AND ENTERING THE LABOR FORCE FOR THE FIRST TIME.

3. THE RESERVE BANK ACTION IN RAISING THE SRD IS NOT EXPECTED TO HAVE IMMEDIATE SHORT-RANGE EFFECTS ON BANK LENDING LEVELS WHICH HAD ALREADY CONTRACTED SUBSTANTIALLY SINCE THE RESERVE BANK REQUEST, MADE IN APRIL, THAT THE BANKS RESTRAIN THE LEVEL OF NEW LENDING. THE LATEST INCREASE IN THE SRD RATIO LIKE EARLIER INCREASES IN JULY AND AUGUST APPEARS PRIMARILY TO BE FORMAL RE-ENFORCEMENT OF THE INFORMAL GUIDANCE ALREADY INFLUENCING BANK LENDING LEVELS.

4. THE LATEST RISES IN UNEMPLOYMENT AND THE PROSPECT OF FURTHER INCREASES ARE PREDICTABLY STIRRING DEMANDS FOR EXPANDED GOVERNMENT MEASURES TO ABSORB THE UNEMPLOYED IN SPECIAL WORK PROGRAMS AND FOR A REVERSAL OF THE RECENT BUDGET DECISION GRADUALLY TO PHASE OUT THE SPECIAL EMPLOYMENT SCHEMES CURRENTLY IN OPERATION. THESE PRESSURES WILL INCREASE THE DIFFICULTY FACED BY THE GOA IN DEFENDING THE REDUCED RATE OF GROWTH IN PUBLIC EXPENDITURE PROJECTED IN THE RECENTLY-INTRODUCED BUDGET AND IN MAINTAINING THE PRIORITY ON ANTI-INFLATIONARY MEASURES WHICH THE BUDGET REFLECTS.

5. NOTWITHSTANDING THE RISING UNEMPLOYMENT, THE GOA IS FACING INCREASING LABOR OPPOSITION TO CONTINUATION OF ITS PROPOSAL FOR QUARTERLY INDEXATION OF WAGE RATES LIMITED TO MOVEMENTS IN THE CPI. WITH NUMEROUS IMPORTANT UNIONS RESOLVED TO PRESS SUBSTANTIAL WAGE INCREASE CLAIMS WHICH EXCEED THIS FORMULA, IT IS BECOMING INCREASINGLY DOUBTFUL WHETHER THIS BASIC FEATURE OF THE GOVERNMENT'S ATTACK ON THE INFLATION SPIRAL CAN BE MAINTAINED.

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PAGE 03 CANBER 06048 110202Z

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